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Message Text

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ACTION EB-08

INFO OCT-01 L-03 FRB-03 OMB-01 ITC-01 SP-02 USIA-06
AGRE-00 AID-05 CIAE-00 COME-00 INR-07 IO-13
LAB-04 NSAE-00 OIC-02 SIL-01 STR-04 TRSE-00
CEA-01 SS-15 ISO-00 AF-10 ARA-10 EA-10 EUR-12
NEA-10 OES-07 FEAE-00 INT-05 GSA-02 /143 W
----------054100 251806Z /45
R 251520Z AUG 77
FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 5385
INFO AMEMBASSY LIMA
AMEMBASSY MEXICO
AMEMBASSY LUSAKA
AMEMBASSY JAKARTA
AMEMBASSY SANTIAGO
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY BONN
AMEMBASSY TOKYO
AMEMBASSY CANBERRA
AMEMBASSY PARIS
AMCONSUL LUBUMBASHI

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 8100

E.O. 11652: GDS
TAGS: UNCTAD, EMIN, IEGC
SUBJECT: UNCTAD: COPPER: GOZ VIEWS

REF: (A) STATE 176730, (B) KINSHASA 7762

1. SUMMARY. CONTRARY TO ATTITUDE PROJECTED BY ZAIRIAN DELEGATIONS MENTIONED REF (A), IT IS UNLIKELY THAT GOZ WILL FEEL UNFAVORABLE TOWARD A BUFFER STOCK FOR COPPER; BUT PROPOSALS FOR PRODUCTION LIMITATION AS A STABILIZING MECHANISM ARE LIKELY TO MEET WITH CONFIDENTIAL

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ACTIVE HOSTILITY. IF PRESSED BY POLITICAL CONSIDERATIONS, THEY MAY AGREE TO A LIMITATION SCHEME, BUT THE CHANCES OF THEIR ACTUALLY ADHERING TO ONE ARE SLIM. THE DECIDING FACTORS IN DETERMINING THE FINAL GOZ POSITION ARE MOST LIKELY TO BE THE VIEWS OF THE COPPER MINING AND MARKETING ORGANIZATIONS (GECAMINES AND SOZACOM), ALONG WITH THE MINISTRY OF MINES; AND GECAMINES AT LEAST IS FAVORABLE TOWARD A BUFFER STOCK, A CONCEPT ABOUT WHICH

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THEY HAVE ALREADY DONE CONSIDERABLE HOMEWORK. END SUMMARY.

2. AS IMPLIED REF (A), THE GOZ TENDS TO BE FAR MORE PRACTICAL THAN IDEOLOGICAL WHEN IT COMES TO COPPER DISCUSSIONS. IN RECENT TALKS WITH THE FORMER ACTING DIRECTOR OF THE MINISTRY OF MINES (NOW MINISTER OF NATIONAL ECONOMY), HE BEMOANED THE FACT THAT TOO MANY OF THE PARTICIPANTS IN THE COPPER DISCUSSIONS, ESPECIALLY IN THE IEGC CONTEXT, WERE TALKING ABOUT THE POLITICAL ADVANTAGES OF BUFFER STOCKS AND FUNDS AND PRODUCTION LIMITATION SCHEMES WITHOUT HAVING ANY IDEA OF THE ACTUAL ECONOMIC COSTS AND BENEFITS INVOLVED. THIS DOES NOT, HOWEVER, MEAN THAT THE GOZ IS EITHER NECESSARILY OPPOSED OR INDIFFERENT TO THESE SCHEMES.

3. THE ACTING DIRECTOR OF GECAMINES, IN DISCUSSIONS WITH AMCONSUL LUBUMBASHI, MADE THE POINT THAT THEY ARE FAVORABLE TO THE IDEA OF A BUFFER STOCK TO ABSORB EXCESS PRODUCTION, AND THAT THIS VIEW IS HELD BY BOTH THE GOZ AND SOZACOM, THE STATE-OWNED MARKETING COMPANY, AS WELL. AS GOZ DELEGATIONS TO COPPER CONFERENCES HAVE HISTORICALLY INCLUDED ONE MEMBER FROM EACH OF THESE ORGANIZATIONS, AND ACCORDING TO OUR SOURCES IN THE MINISTRY OF MINES ALL THREE ARE CONSULTED AND INFLUENTIAL IN THE FORMULATION OF THE GOZ POSITION ON THESE MATTERS; WE HAVE NO REASON TO BELIEVE THAT THERE WOULD BE GOZ OPPOSITION TO THE FORMATION OF A BUFFER STOCK. AS HAS BEEN PREVIOUSLY NOTED, IT IS WHAT THE GOZ PERCEIVES TO BE IN ITS ECONOMIC INTEREST THAT CARRIES THE MOST WEIGHT, NOT NECESSARILY WHAT IS EITHER OBJECTIVELY OR IN THE US VIEW THE MOST
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ADVANTAGEOUS. IN THIS CASE THE ABSENCE OF THE EXPANSIONARY PRESSURES AND BOOM MENTALITY ASSOCIATED WITH UNUSUALLY HIGH COPPER PRICES MAY BE VIEWED AS A GREATER BENEFIT THAN THE EXTRA REVENUE GENERATED BY AN UNREGULATED MARKET.

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ACTION EB-08

INFO OCT-01 L-03 FRB-03 OMB-01 ITC-01 SP-02 USIA-06
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AF-10 ARA-10 EA-10 EUR-12 NEA-10 /143 W
----------055521 251807Z /45
R 251520Z AUG 77
FM AMEMBASSY KINSHASA
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AMEMBASSY PARIS
AMCONSUL LUBUMBASHI

C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 8100

4. IN THE CASE OF PRODUCTION RESTRICTION, THE GOZ IS NOT AT ALL ENTHUSIASTIC. IN THE PAST ZAIRIAN COMPLIANCE WITH CIPEC REQUESTS TO CUT BACK PRODUCTION HAS BEEN A RESULT OF THE LACK OF FUEL, SPARE PARTS AND OTHER SUPPLIES RATHER THAN A MATTER OF CONSCIOUS GOVERNMENT POLICY. THE GOZ NEEDS THE REVENUE GENERATED BY COPPER, EVEN AT REDUCED PRICES, TOO BADLY TO RISK EVEN TEMPORARY CUTBACKS. IN ADDITION, THE PLANNED 100,000 TON PER YEAR GECAMINES EXPANSION IS DUE TO COME ON LINE IN EARLY 1979, ALTHOUGH WE EXPECT THAT THIS MAY SLIP; AND WITH THAT LARGE AN INVESTMENT IN ADDITIONAL PRODUCTIVE CAPACITY, IT WOULD SEEM MOST UNLIKELY THAT THE GOZ
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WOULD EITHER FAVOR OR ADHERE TO PRODUCTION CURBS.

5. ONE OTHER ALTERNATIVE FOR THE GOZ, HOWEVER, WOULD BE TO GO ALONG WITH THE IDEA OF PRODUCTION CURBS IF IT BECAME OBVIOUS THAT THERE WAS A PRODUCER CONSENSUS FROM WHICH THEY WERE THE ONLY DISSENTER, EVEN TO THE POINT OF SIGNING AN AGREEMENT TO LIMIT PRODUCTION, AND THEN TO BASICALLY IGNORE THE AGREEMENT. THIS SORT OF TACTIC WAS GRAPHICALLY ILLUSTRATED BY THE RECENT GOZ ACTIONS REGARDING THE MINIMUM SELLING PRICE FOR ROBUSTA COFFEE. AS DETAILED REF (B), THE GOZ WAS A PARTY TO THE INTERAFRICAN COFFEE ORGANIZATION DECISION NOT TO SELL ROBUSTA FOR UNDER $2.65 PER POUND; THE NATIONAL COFFEE OFFICE (ONC) ISSUED AN EDICT TO THE EFFECT THAT EXPORTERS WOULD NOT BE PERMITTED TO SELL UNDER THAT PRICE; BUT AS THE ONC HAS NO ENFORCEMENT POWERS THE EDICT HAS BEEN HONORED MORE IN THE BREACH THAN IN THE OBSERVANCE. CURRENTLY THERE ARE NO SIGNS THAT THE GOZ HAS ANY REAL INTENTION OF ENFORCING THE DECISION, AND IT IS NOT AT ALL UNLIKELY THAT THEIR BEHAVIOR

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WOULD FOLLOW A SIMILAR PATTERN IF THEY FELT FORCED BY POLITICAL
NECESSITY TO ACQUIESCE TO PRODUCTION CONTROLS FOR COPPER.

6. FOR THE MOST PART THE GOZ DELEGATIONS TO CONFERENCES ARE
CONSTRUCTED AT THE LAST MINUTE AND ARE OFTEN KNOWLEDGEABLE ON THE
SUBJECT BUT NOT VERY WELL BRIEFED ON THE GOVERNMENT'S POSITION.
A PERFECT CASE IN POINT IS LAST WEEK'S IEGC MEETING WHERE AS OF
9 AUGUST THE DELEGATION HAD NOT EVEN BEEN CHOSEN, LET ALONE
BRIEFED. HOWEVER, WHEN THEY DO GO OUT WITH A DEFINED GOZ
VIEWPOINT, IT IS MOST LIKELY TO BE THE RESULT OF HIGH LEVEL
CONSULTATIONS WITHIN THE DEPT. OF MINES, GECAMINES, AND SOZACOM,
WHICH HAS BEEN PRESENTED TO THE PRESIDENT BY MINES AND RECEIVED
HIS IMPRIMATUR. IN THAT CONTEXT THE FOLLOWING GECAMINES VIEWS,
AS DESCRIBED TO OUR CONSUL AT LUBUMBASHI, ON THE COST, FUNCTIONING,
AND COMPOSITION OF A BUFFER STOCK MAY BE OF INTEREST.

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7. GECAMINES FEELS THAT A PRICE OF ABOUT $US.85/LB WOULD BE FAIR
TO BOTH PRODUCERS AND CONSUMERS. AT PRICES TOO MUCH ABOVE THIS
CONSUMERS TEND TO SHIFT TO PLASTICS, ALUMINUM AND OTHER
SUBSTITUTES AND SUCH PRICES (AROUND $1 - $1.10/LB.) ARE UNATTRACTIVE
TO GECAMINES. THEY FEEL THAT A PRICE AT THIS LEVEL COULD BE
OBTAINED AND SUPPORTED IF THE PRESENT EXCESS IS ABSORBED, WHICH
THEY CALCULATE WOULD COST ABOUT $3 BILLION. HAVING NOTED THE
UNWILLINGNESS OF OPEC TO FINANCE THIS LARGE A FUND WHEN THE SUBJECT
WAS BROACHED BY THE PRODUCING COUNTRIES, THEY SEE THE ONLY HOPE FOR
FUNDING AS THE INDUSTRIALIZED CONSUMING COUNTRIES, A PROSPECT
THEY VIEW AS TENUOUS AT BEST.
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Control Number: n/a
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
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